



# Internal Audit's Role in Preventing Fraud and Corruption

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2018-19 IIA Global Chairman of the Board



# AGENDA

1. IIA's *Standards* on Corruption and Fraud
2. Our Role
3. Required Knowledge
4. Audit Considerations
5. Other Considerations

# Proficiency and Due Professional Care

Must have sufficient knowledge to evaluate:

- Fraud risk
- Manner in which fraud is managed by the organization

Not expected to have:

- Expertise of a person whose primary responsibility is detecting and investigating fraud

# Due Professional Care



- **Extent of work** needed to achieve objectives
- **Relative complexity, materiality, or significance**
- Adequacy and effectiveness of governance, risk management, and control processes
- Probability of significant errors, fraud, or noncompliance
- Cost of assurance in relation to potential benefits

# Reporting to Senior Management and the Board

CAE must report periodically on internal audit's purpose, authority, responsibility, and performance relative to its plan

This must include significant risk exposures and control issues, **including fraud risks**, governance issues, and other matters that require the attention of senior management and/or the board

# IIA Standards

2120.A2 – Must evaluate potential for the occurrence of fraud and how the organization manages fraud risk

2210.A2 – Must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing engagement objectives

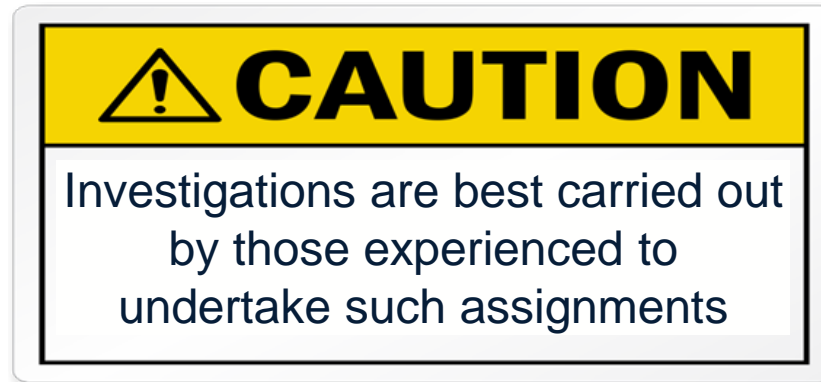
# Our Role

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.”

Includes **detecting, preventing, and monitoring** fraud risks and addressing those risks in audits and investigations

# Our Role

The internal auditor should not be expected to have the expertise of a person whose primary responsibility is to investigate fraud.





# Our Role

- Audit's role in investigations depends upon resources and the organization's governance structure
- If audit evidence points to an illegal act, the internal auditor should seek legal advice directly or recommend that management do so

# Required Knowledge

## Identify

- Red flags indicating fraud may have been committed

## Understand

- Characteristics of fraud
- Techniques used to commit fraud
- The various fraud schemes and scenarios

## Evaluate

- Effectiveness of controls to prevent or detect fraud
- Indicators of fraud

## Decide

- Is further action necessary?
- Should an investigation be recommended?

# Fraud Prevention and Anti-corruption Programs

Internal audit should assess the effectiveness of fraud prevention and anti-corruption programs

- *Help anticipate risks*
- *Help identify potential and actual incidents*

# Fraud Prevention and Anti-corruption Programs

Two different, but complementary, approaches may be used exclusively or in conjunction with each other

1. Audit each component of the fraud prevention and anti-corruption program

2. Incorporate into all audits as appropriate, including risk assessment and scoping

# Fraud Prevention and Anti-corruption Programs



Procedures to assess fraud and corruption risks

Fraud and corruption scenarios

Control environment and fraud prevention/  
anti-corruption programs within the audit area

Linking audit procedures to assessed risk

# Governance and Risk Assessment

- Understand attitude/tolerance of board and executive management
  - Is attitude sufficiently restrictive?
  - Adequately communicated throughout the organization?



- Scrutinize governance structure and monitoring/oversight responsibilities
- Evaluate inherent risks as part of comprehensive risk assessment

# Policies and Procedures



- Documented appropriately?
- Approved by appropriate management?
- Compliance with applicable laws and regulations?
- Implemented effectively?

# Communication and Training

- Internal audit should share information and work with other assurance functions
  - Fraud investigation, legal counsel, compliance, external audit...
- May collaborate with legal and ethics teams on training and anti-bribery and anticorruption audits
  - Must consider whether their training and/or communication activities could impair their objectivity



# Monitoring should be performed to:

- Ensure effectiveness of fraud prevention/anticorruption programs
- Lower time to detection
- Support continuous improvement and follow-through on corrective action plans



# When audit evidence indicates possible irregularities...

- Follow reporting protocol and refer the matter to the investigation group
- If internal audit suspects that management is involved in the irregularity, identify the appropriate party to whom audit can report
- Perform and document adequate actions to support audit findings, conclusions, and recommendations

# Other Considerations

- Geography and industry
- Hiring/employment
- Third-party/vendor management
- Gifts, entertainment, and political contributions
- Procurement
- Sales
- Finance
- IT
- Upper management
- Government relations

**Thank You**